

GROUP SERVICES AND COOPERATIVES IN FSA

I. Relationship of Group Services to Overall FSA Program.

Group services and cooperative associations are one of the important approaches to the rehabilitation of low-income farm families and, as such, are considered an essential part of the overall program.

A. Statements of Administrative endorsement - Walter A. Duffy

1. "There appeared in the February issue of the NEWS FOR FARMERS COOPERATIVES, an article prepared by Clinton P. Anderson, Secretary of Agriculture. Mr. Anderson states:

'There is no doubt the cooperative technique is a part of the American way of life. The very nature of farming in America from the time of the first settlers has given cooperation a tangible, extremely high value among farmers.

'Most of all, I hope that the many men and women who guide the destinies of our cooperative enterprises keep firmly in mind not only the great opportunities they have for service, but also the basic purposes of this form of organization--to enable farmers to work together to maintain and improve the family farm.'

"We all know from actual experience that individual farmers or small farmers need many types of services, equipment and facilities which no one of them can afford to own and operate for his sole use. Even if the farmer had or could obtain funds for the initial cost, the service might not be economically justified for individual use because of its limited need.

"An FSA borrower cannot afford to own a purebred bull to service an average herd of cows or a manure spreader for use on the average family size farm. In many cases of this kind a group of neighbors, ranging from 2 to 3 members in a 'simple service' to a larger number in a larger enterprise, may join together and combine their individual contributions of capital, labor and management, in order to acquire and operate the services or facilities needed for the promotion of their common interests.

"By using the joint ownership approach we can lower the individual capital and operating cost, and remove deficiencies which may exist in the borrowers annual farm and home operating plan.

"It behooves each of us and it will be our policy to recognize and use the group service approach as an integral part of our rehabilitation program for FSA families."

2. In his testimony before the House sub-committee, Administrator Lasseter said in part:

"We are entering an era of greater competition in American agriculture. Rapid advances have been made in technology, and the results of research and experiment are constantly increasing yields per acre,

Statement of General Counsel, Department of Defense

Before the Senate Committee on Armed Services, Subcommittee on Military Personnel, July 1, 1964.

Statement of General Counsel, Department of Defense

I am pleased to appear before the Senate Committee on Armed Services, Subcommittee on Military Personnel, today to discuss the Department of Defense's position on the proposed legislation, H.R. 10800, "The Military Personnel Act of 1964."

There is no doubt that the Department of Defense is deeply concerned with the welfare of its personnel. The very nature of the Department's mission requires that we maintain the highest standards of care and protection for our men and women in uniform.

First of all, I want to state that the Department of Defense is committed to the principle of equal opportunity for all. We believe that every man and woman who serves in the military should have the same opportunities for advancement and growth, regardless of their race, religion, or social background.

One of the most important areas of concern is the issue of pay and benefits. We believe that military personnel should be compensated fairly for their service and sacrifice. The proposed legislation, H.R. 10800, provides for a significant increase in pay and benefits for all active-duty personnel, which we strongly support.

The Department of Defense is also committed to the principle of merit. We believe that advancement should be based on merit and performance, rather than on seniority or other factors. The proposed legislation, H.R. 10800, provides for a merit-based system of advancement, which we strongly support.

Finally, I want to state that the Department of Defense is committed to the principle of discipline. We believe that military personnel should be held to the highest standards of conduct and discipline, and that any violations should be dealt with promptly and fairly.

In conclusion, I believe that the proposed legislation, H.R. 10800, is a significant step forward in the Department of Defense's efforts to improve the welfare and advancement of its personnel. I strongly support its passage.

Thank you very much for the opportunity to appear before the Senate Committee on Armed Services, Subcommittee on Military Personnel, today.

The Department of Defense is committed to the principle of equal opportunity for all. We believe that every man and woman who serves in the military should have the same opportunities for advancement and growth, regardless of their race, religion, or social background.

"Those developments will influence our future agricultural economy, particularly that of the family-type farm operator. To operate successfully in such an economy, farmers will have to make adjustments which will increase their productivity and decrease the cost of production. Such adjustments involve the use of tools and methods developed through scientific research, and the development of greater managerial ability.

"As another aid to rehabilitation, we encourage farmers to work with their neighbors in acquiring such items as machinery and better herd sires which they cannot afford to own individually. Loans are made only to individual farmers who need financial assistance for such purposes. These group services enable eligible farmers to keep capital investments in line with the size of operations and to benefit from the use of modern production methods and equipment. The process of technological improvement is not reversible, and the results of research and experiment in increasing yields cannot be dismissed. Last year, 1,237 such small group services were established. With the trend toward mechanization and greater efficiency in all farm operations, these small group services will be of increasing importance in the rehabilitation of family-type farm operators."

3. FSA Instruction 731.2 states as the purpose of this phase of our program:

"Group services are a means by which two or more low-income farmers may provide themselves with such services, equipment and facilities as sires, machinery, storage facilities, food preservation equipment, and other needed farm and home services, facilities and equipment which they could not otherwise obtain individually on an economically sound basis. Through the use of group services, low-income farmers on family-type farms may keep capital investment in balance with their other resources and size of operations, and provide themselves with modern production equipment, facilities and services not otherwise available to them as individuals. Group services also provide a means by which low-income farmers can learn to work together to solve other mutual problems of rehabilitation. They are an integral part of a well-balanced rehabilitation program."

- B. Loan limitations of \$2,500 increases the need for reduced investment in capital goods.

1. Joint use may be one means of permitting the setting up and operation of family type farm unit with initial loan and/or total debt within our maximum for each individual client. This is particularly important where a veteran is starting entirely anew in a farming enterprise.
2. Our policy of keeping subordinations within the loan limits tends to accentuate the need for reducing capital investment in some cases.

those developments will influence the future application of economic principles to the family-type farm of today. To operate successfully in such an economy, farmers will have to make adjustments which will increase their productivity and decrease the cost of production. Such adjustments will be in the use of land and methods developed through scientific research, and the development of greater managerial ability.

It is another aim to reorganize the economic factors in work with their neighbors in cooperation with them as managers and better business men. They must learn to work individually. Loans are made only to individual farmers who own themselves. There are group services which are available to farmers to help them in their business in line with the state of operations and to benefit from the use of modern production methods and equipment. The extent of research and development is not restricted, and the results of research and development in farm management cannot be estimated. Last year, 1931, such group services were established with the farm. Farm management and general efficiency in all farm operations. These small group services will be of increasing importance in the evolution of family-type farm operators.

2. The instruction VII-1 states as the purpose of this phase of our program:

"Group services are a means by which two or more farm-type farmers may provide themselves with such services, equipment, and facilities as sales, marketing, storage facilities, tool production equipment, and other services and equipment which facilities and equipment which they could not otherwise obtain individually on an economical basis. Through the use of group services, farm-type farmers can obtain many more capital resources, and they can obtain other resources and size of operation, and they can obtain other resources. Production equipment, tool, and other services and equipment available to them as individuals. Group services also provide a means by which farm-type farmers can obtain other resources. They are to serve their mutual interests in a group program."

3. From a list of 25,000 farmers in the United States, the following are in capital goods:

1. John and his wife are the owners of a farm of 100 acres and operate on family-type farm. They have a total of 100 acres of land. This total land within the farm is being used as a family unit. It is particularly important that a system of farming be shown in a family unit.

2. Our policy of keeping production within the farm limits. For example, the use of modern capital equipment in some cases.

3. If a prospective client can afford to own all his capital goods individually it is possible that he may not need FSA assistance. In other words need for joint use may be one criterion of whether an FSA loan is justified.
- C. Use of group services is one means of arresting the apparent trend toward over-capitalization in this area.
 1. Following his field visits in Region XI, John Heilman of the Washington office observed that the outlay for capital equipment in this area is relatively heavy and pointed out the danger of this condition in the event of rapidly declining prices at some future date.
 2. Any conversion of present borrowers to adoption and use of the group service technique must necessarily be a gradual process.
 3. Possibilities and practicability of using group services should be discussed with all applicants.
 - a. Services must not be superimposed by FSA personnel.
- D. Available loan funds may be spread among a greater number of deserving farm families through joint use of equipment.
- II. Factual data relating to use of group services in the FSA program.
 - A. Refer to charts showing group services established and number now reported as active.
 1. National
 2. Regional
 3. State
 4. District
 - B. Even though the 41 services established in this region during the 1945 fiscal year places our region about midway in the national scale, it is still apparent that this phase of the program is not being used to the extent that our caseload would seem to justify.
- III. Group services may be a means of reducing costs of farm operation as well as investment in capital goods.
 - A. Reference to use guides is one good practical means of discussing with clients or applicants the advantage of joint use.
 1. See typical use guides prepared for dairy bull, combine and manure spreader.
 - B. Use of wall chart and detailed tables on costs per hour of use is another means of pointing out potential savings in cost of operation.

IV. Procedure and policy in the establishment and servicing of group services have been revised materially since 1944. Technical requirements have now been reduced to an absolute minimum consistent with the need for sound supervision.

A. Definition:

A group service is a service or facility operated for the benefit of a small group of individuals and the property used in the service is owned by one or more members of the group.

B. Types of group services (Refer to Speciman Application Docket).

1. Joint owner

- a. Formal - needs manager and record system and uses fee plan.
- b. Informal - no manager and no fee.

2. Master owner

- a. Formal - all services other than those set up on simple exchange basis.
- b. Informal - exchange plan.

C. Demonstration. Developing a Group Service:

- 1. What factors were considered in developing this service?

D. Loan information (Refer to Speciman Application Docket).

- 1. Eligibility - same as other RR loans.
- 2. Purposes - outlined in 731.1 but group service can be financed only to extent borrowers cannot themselves finance the service.
- 3. Interest - 5%.
- 4. Approval - authority per 701.1 but no loan of less than \$20.00.
- 5. Security.
 - a. Loans in excess of \$100 each to one or more participants require joint mortgage covering chattels of the service.
 - (1) Explain use of FSA-XI-1312.
 - b. If each loan is less than \$100 then mortgages on chattels of each individual may be taken leaving property of the service free of incumbrance.

- c. First lien on property purchased with master borrower loan funds necessary.
- 6. Repayment - five years or life of security, whichever is shorter.
- 7. Limitations.
 - a. Loans to individuals and not group.
 - b. Group unincorporated and relatively small in number.
 - c. Loan funds not to be used for:
 - (1) Participation in a cooperative association.
 - (2) Purchase or lease of land.
 - (3) Cooperative farming.
 - d. Purpose is only use and ownership of properties used jointly.
 - e. Operation primarily for benefit of members with outside work incidental.
- E. In order to clarify the scope of our authority in setting up group services, several hypothetical cases involving borderline activities were referred to the Regional Attorney for an opinion. These cases involved the following:
 - 1. Bulldozer.
 - 2. Well Drilling Outfit.
 - 3. Potato Cellar.
 - 4. Grain Elevator.

A copy each of our inquiry and of Mr. Farr's reply is included in this manual for discussion purposes. Supervisors should clear questionable cases with the district supervisors before proceeding with organization.

V. Cooperative Associations: AL 810 (800) and AL 811 (802)

- A. Operations of FSA financed cooperative associations.
 - 1. Objectives:
 - a. Assumption by membership of the responsibility of ownership and management.
 - b. Adoption of sound business practices.

- c. Encouragement of FSA-financed associations to utilize technical services which are available through:
 - (1) Other organizations with which they may affiliate.
 - (2) Independent sources, or
 - (3) Other Government agencies which are equipped and authorized to render such services.
- d. Conforming to the generally accepted cooperative principles and sound business practices.

2. Responsibilities:

a. General:

- (1) FSA personnel will not perform administrative or clerical functions with respect to the association's business, maintain the financial or other records, prepare financial or other reports, or develop operating plans and budgets for FSA-financed cooperative associations. The only exceptions are:
 - (a) Cases in which supervisory assistance is required in the training of association personnel, and
 - (b) Cases in which FSA personnel are acting in the in the course of their official duties for the protection of the Government's interest under existing security instruments or liquidation agreements.
- (2) Borrower association, which has a "Group I" status, on a sound operating basis must be liquidated to protect the Government's interest according to prescribed procedure.
- (3) Technical advice for operating problems may be furnished by FSA personnel when requested by FSA indirectly financed or paid-up cooperative associations, provided such advice is not readily available through other sources.
- (4) The Boards of Directors should take the initiative in the liquidation. FSA personnel will provide no service in the preparation of financial statements, examination of the accounts, liquidation of the assets, or in the dissolution of such associations.

b. FSA County Supervisors:

FSA Supervisors are responsible for seeing that the officials of borrower associations are:

- (1) Aware of the obligations of the association to the Government under the loan agreement, and
- (2) Informed of the report and operating policy requirements as prescribed in Administration Letter 810 (800).

FSA Supervisors are responsible for:

- (1) The supervision of borrower associations.
- (2) The furnishing of such training and technical guidance as is required in connection with their operations.
- (3) Providing technical advice to FSA indirectly financed and paid-up cooperatives when requested, in the circumstances authorized in paragraph a (3) above. The type of technical services required will often necessitate the assistance of the District FSA Supervisor, and, in some instances, the assistance of members of the Regional Cooperative Services Section.

c. District Supervisors:

District FSA Supervisors are responsible for:

- (1) Providing FSA Supervisors with guidance, on-the-job and conference training, and follow-up supervision in connection with the operations of cooperative associations.
- (2) Consult and arrange for the appropriate services of State or Regional Cooperative Services Section personnel to render special technical training and to assist with difficult and technical operating problems.

d. Regional Cooperative Section:

Under the direction of the Regional Director, the Regional Cooperative Services Section is responsible for:

- (1) Carrying out on-the-job, conference, and other types of training of District FSA Supervisors.
- (2) Regional personnel meetings with personnel at the county level or with FSA-financed associations will be confined to those meetings incident to the training of District FSA Supervisors or to special technical assignments arranged for and carried out in conjunction with the District FSA Supervisor.

3. Business Operation of Borrower Association - Refer to Pages 4-5 of Administration Letter 810 (800).

- a. Development and execution of annual operating plan and budget.

- (1) In accordance with the loan agreement.
- (2) Plans to be sound and realistic.
- (3) Credit policy.
- (4) Those chiefly concerned with budget.
 - (a) The Board of Directors.
 - (b) The Manager.
 - (c) The Creditor (FSA).

4. Review, analysis and approval of operating budget.
 - a. County and district review.
 - b. Regional review and analysis.
 - c. Approval of operating plans and budget.

5. Field Folders:

As a supervising aid, the FSA Supervisor will maintain a field folder for each borrower association in his unit in accordance with provisions of FSA Instruction 458.1.

B. Loan and Security Servicing.

1. Responsibilities:

a. Associations:

Borrower associations directly indebted to the FSA must adhere to:

- (1) The terms of their loan agreements and should not deviate in any respect from the provisions of such agreement unless permission in writing is first received.
- (2) Must account to the Government for all property which is mortgaged to secure their FSA loans.
- (3) The protection and preservation of security property; and prevent such property from being subjected to conditions which will result in undue depreciation or loss.

b. FSA Supervisors:

- (1) The prompt collection of FSA loans to cooperative

associations, in accordance with the repayment schedules. This responsibility will extend to the collection of retains, where retain provisions are in effect.

- (2) The proper loan and security servicing of cooperative associations, as prescribed in Administration Letter 811 (802).
- (3) Securing compliance by the associations with all provisions of the loan agreements. Any failure of the association to adhere to the terms of such agreements, after attention has been directed to the violation, will be reported promptly by the FSA Supervisor to the Regional Director. The Regional Director, on the advice of the Regional Attorney, will take such action as he deems necessary to secure adherence or otherwise to protect the Government's interests.

c. District Supervisor:

- (1) To provide FSA Supervisors in his district with effective guidance and training in the loan and security servicing of cooperative associations.
- (2) To assure himself that each FSA Supervisor in his district carries out his responsibilities relating to:
 - (a) The collection of FSA loans to cooperative associations, and
 - (b) The loan and security servicing of cooperative associations.

